family allowances for all?

a report by the
national council of welfare
on federal child benefits

march 1983

Canada

F A M I L Y A L L O W A N C E S

F O R A L L ?

A report by the
National Council of Welfare on
Federal Child Benefits

March 1983

Government of Canada | Gouvernement du Canada

National Council of Welfare | Conseil national du Bien-être social

Copies of this publication may be obtained from:
National Council of Welfare
Brooke Claxton Building
Ottawa K1A 0K9
(Tel. (613) 995-6265)

Également disponible en français sous le titre:
Les allocations familiales: un régime à repenser?

©Minister of Supply and Services Canada 1983
Cat. No. H68-8/1983 E
ISBN 0-662-12441-3

TABLE OF CONTENTS

	Page
INTRODUCTION	1
THE FACTS	3
THE ARGUMENTS	24
A PROPOSAL	32

INTRODUCTION

Should the family allowance be paid to all families with children, regardless of their income? Or should the federal government change the program so that it serves only families that really need the money?

This issue arose last autumn, when Cabinet was said to be considering the option of an end to universal family allowances as a way of freeing up funds for job creation programs. No decision has been announced so far to abandon the principle of payment to all. However supporters of universal family allowances fear that the program will remain a tempting target for cuts during the current period of restraint in government spending.

There is nothing new in the suggestion that well-off families should be denied the family allowance. The argument appeared as long ago as 1929, when a proposal for family allowances was first studied by a committee of Parliament. It came up again during the Second World War, when Ottawa enacted a universal family allowance program over the objections of those who attacked the measure as a waste of money that would better be spent on the poor. Criticisms of universal payment have resurfaced periodically since the first cheques were mailed out to all families with children in July of 1945.[1]

The purpose of this report is to respond to the Minister of Finance's call for a "rational discussion and careful

examination of the issues" involved in the family allowances debate.[2] The first part gives the facts which Canadians need to understand family allowances and the other federal child benefit programs. The second chapter presents the arguments for and against universal family allowances. The report ends with a proposal to reform the child benefits system.

THE FACTS

The family allowance is the best known federal cash benefit for families with children. However there are two other programs - the child tax credit and the children's tax exemption - that also deliver income supplements to large numbers of Canadian parents.

The following pages explain how the programs operate, how much they cost and whom they benefit. We also assess the impact of the three child benefits added together.

Family Allowances

The federal government introduced family allowances in 1945. In 1983, the program pays families $28.52 a month on behalf of each child under the age of 18. Normally the family allowance cheque is made out to the mother.

A province can vary the federal family allowance according to the age and/or number of children in a family, provided no monthly allowance is less than 60 percent of the national rate and the average monthly payment for all children is the same as the monthly national rate. Only two provinces have chosen this option. In Alberta, family allowances vary according to children's ages; the 1983 monthly rates are $22.10 for youngsters 6 and under, $27.10 for those 7 to 11, $36.40 for 12 to 15 year-olds, and $40.80 for those aged 16 or 17. Quebec gears its federal family allowance payments to the number

of children in a family; the 1983 benefits are $17.12 a month for the first child, $27.19 for the second, and $66.18 for the third and each additional child. These amounts are increased by $7.13 a month for every child between the ages of 12 and 17.[3]

Family allowances benefit more Canadians than any other social program. Each month this year, Ottawa will mail out 3.6 million cheques to families across Canada on behalf of 6.7 million children.

Table 1 shows that close to six in ten Canadian families benefit from the family allowance program.[4] The proportion of families receiving benefits is significantly higher than the national average in Atlantic Canada, Alberta, the Yukon and the Northwest Territories, lower in Ontario and British Columbia, and close to average in Quebec, Manitoba and Saskatchewan. However even in British Columbia, with the lowest figure of all, over half of all families get family allowances.

Family allowances have been indexed to the cost of living since 1974. Each January, the family allowance rate is raised to take into account the increase in the Consumer Price Index during the twelve months ending the previous October. However, as one of the restraint measures of the June 1982 budget, Ottawa is limiting family allowance increases to 6 percent in 1983 and 5 percent in 1984.[5]

Family allowance payments will total $2.2 billion during the 1982-83 fiscal year. The cost to administer this large social program is relatively modest - $17.7 million, which amounts to less than 1 percent of total payments. Because family allowances are taxable, the federal and provincial

TABLE 1

FAMILY ALLOWANCE (FA) STATISTICS
BY PROVINCE, JANUARY 1983

	Number of FA Families	Number of FA Children	Average No. of Children Per FA Family	Average Allowance Per Family	FA Families as Percentage of All Families (1981)
Newfoundland	97,860	199,856	2.04	$58.61	71.5%
Prince Edward Island	18,484	36,713	1.99	57.05	61.4
Nova Scotia	129,659	240,472	1.85	53.26	59.6
New Brunswick	110,947	209,911	1.89	54.29	62.6
Quebec	956,612	1,693,179	1.77	51.58	57.3
Ontario	1,265,894	2,292,779	1.81	52.19	55.5
Manitoba	149,844	290,463	1.94	55.92	56.2
Saskatchewan	144,340	290,758	2.01	57.96	57.9
Alberta	352,221	665,482	1.89	55.03	58.9
British Columbia	397,994	722,935	1.82	52.58	53.8
Yukon	3,995	7,357	1.84	54.02	67.3
Northwest Territories	8,699	19,690	2.26	66.79	84.6
CANADA	3,636,549	6,669,595	1.83	53.07	57.0

governments will recoup one-quarter the amount of tne program's costs at income tax time. Therefore the real price tag for family allowances will be about $1.6 billion this fiscal year (i.e., $2.2 billion paid out less $560 million recovered through the tax system).[6]

The family allowance is a universal income security program. All families with children under 18 are eligible. Moreover the payment is the same for every child, regardless of his or her family's income or wealth.

At first glance it might seem unfair and wasteful that an affluent family with two children gets the same $57.04 cheque each month as a single mother struggling to raise two children on an income below the poverty line. Contrary to what many people believe, however, family allowances do not benefit rich and poor equally. Benefits are counted as taxable income by Revenue Canada.[7] A $50,000-a-year family with two children will pay back $304 of its annual $684 family allowance in income tax, leaving it with a net benefit of $380 for 1983. On the other hand, a family living on $10,000 or less pays no federal or provincial income tax and so keeps the full $684 in family allowance benefits.[8]

Table 2 shows net 1983 family allowances for families at different earnings levels. (We assume that each family is a one-earner couple with two children.) Because the personal income tax system is progressive - the proportion of income which an individual pays in taxes increases as his or her income increases - the distribution of net family allowances is also progressive: the higher a family's income, the lower its real benefit.

TABLE 2

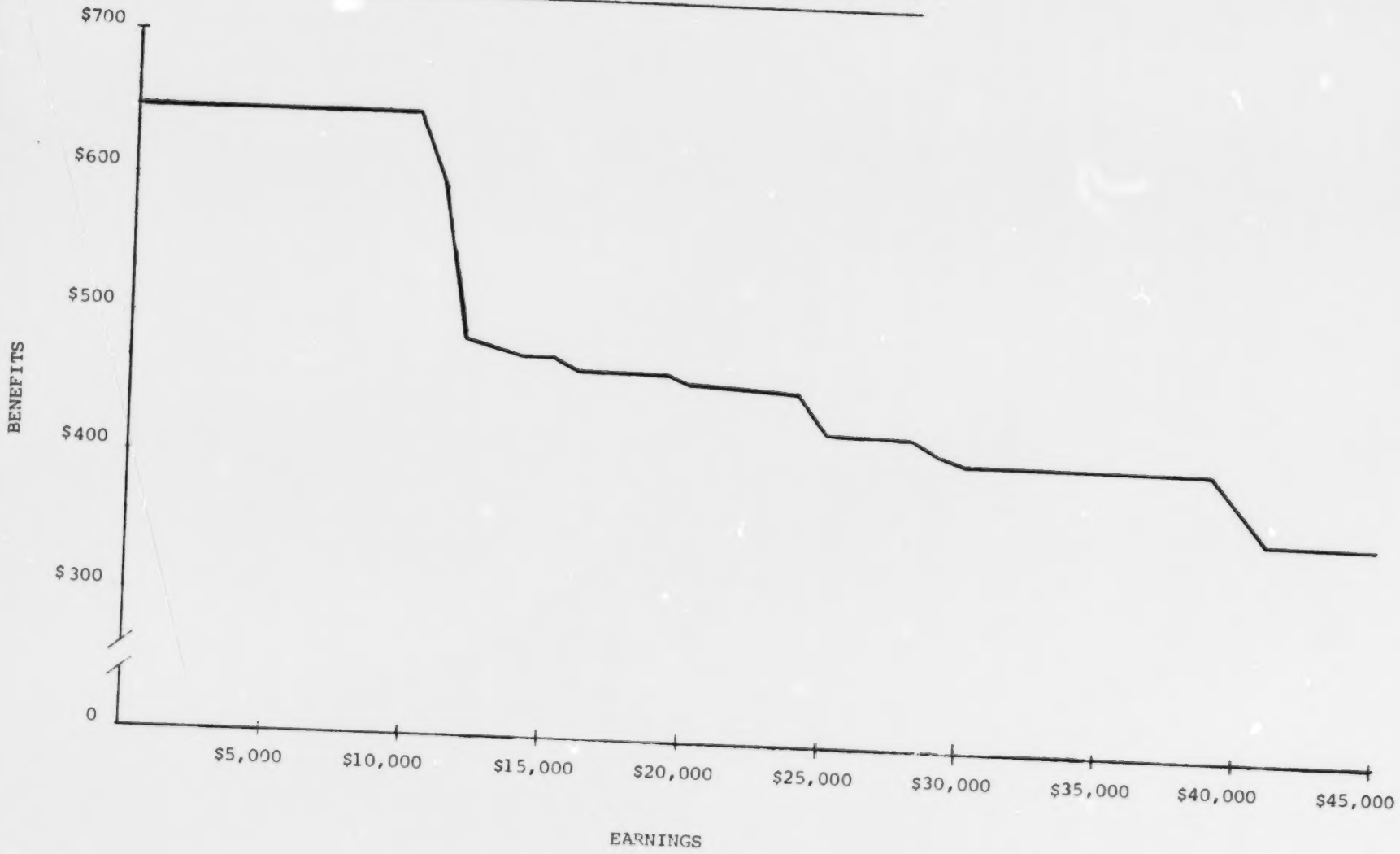
NET FAMILY ALLOWANCES,
COUPLE WITH TWO CHILDREN,
BY EARNINGS, 1983

Earnings	Annual Benefit
$10,000 or less	$684
15,000	502
20,000	492
25,000	482
30,000	451
40,000	431
50,000	380

Figure 1 illustrates the pattern of net family allowance benefits in graph form.[9] The vertical axis shows the amount of 1982 after-tax family allowances, while the horizontal axis gives earnings. The curve connects net family allowance benefits to earnings level; for example, a family with two children and earnings of $10,000 or less kept the full amount of the family allowance ($646 in 1982), while a family earning $30,000 ended up with $407 after paying income tax on its benefits. The downward slope of the curve indicates that the family allowance is a progressive program: benefits fall as incomes rise.

FIGURE 1

NET FAMILY ALLOWANCES, BY EARNINGS, 1982*



* Couple, two children

Child Tax Credit

The newest federal family program, the refundable child tax credit, was legislated in 1978 and made its first payments in 1979. The maximum benefit is $343 for each child for the 1982 tax year, payable in the early months of 1983. The program will deliver $1.45 billion worth of credits to two and a half million families on behalf of five million children.[10]

The child tax credit is delivered through the income tax system. The parent who receives the family allowance (usually the mother) applies for the credit by filling out a simple schedule in the income tax form. If the mother works outside the home and earns sufficient income that her federal tax (before applying the credit) exceeds the value of the credit to which she is entitled, then her tax will be reduced by the amount of the credit. If, on the other hand, she earns only a small amount of outside income so that her federal tax is less than the credit, the difference will be refunded to her by the government. If she owes no federal tax at all - either because she has no taxable income or because she has already paid all the tax she owes through tax-withholding by her employer - she will be refunded the full amount of her credit entitlement.

Like family allowances, the child tax credit is paid on behalf of children under the age of 18. However the child tax credit is restricted to low and middle-income families. For this reason it is characterized as a selective program, as opposed to the family allowance which is universal.

When a mother applies for the child tax credit, she must indicate her 'net family income'. 'Net income' is defined

as total income from all sources that must be reported for income tax purposes (employment earnings, family allowances, unemployment insurance, taxable capital gains, interest, dividends, etc.) minus certain deductions (such as the 3 percent or $500 employment expense allowance, Canada Pension Plan contributions, unemployment insurance premiums, contributions to a registered pension plan, retirement savings plan or home ownership savings plan, union and professional dues, child care expenses, and moving expenses). 'Family income' means the net income of the mother and her legal spouse; if she is single, separate, divorced or widowed at the end of the year, then she lists only her own net income.

The full child tax credit ($343 for each child) goes to mothers whose net family income was $26,330 or less in 1982. The amount of the credit is reduced by 5 cents for every dollar of family income over $26,330. For a family with two children, this means a full $686 in benefits if net income in 1982 was below $26,330, a diminishing credit if income was between $26,330 and $40,050, and no credit at all if income exceeded $40,050. Table 3 gives the benefits to which families of different size and income are entitled for the 1982 tax year.

Table 4 proves that the child tax credit has turned out to be as <u>progressive</u> in practice as it is in theory. Nine out of ten families who received the child tax credit for the 1980 tax year had incomes below the national average. Over ninety percent of child tax credit expenditures went to families with below-average incomes.[11]

The child tax credit is particularly important to single-parent families which, on average, have lower incomes and

TABLE 3

CHILD TAX CREDIT,
BY INCOME, 1983

	Number of Children in the Family			
Net Family Income	1	2	3	4
$26,330 or less	$343	$686	$1,029	$1,372
28,000	260	603	946	1,289
30,000	160	503	846	1,189
32,000	60	403	746	1,089
35,000	0	253	596	939
40,000	0	3	346	689
45,000	0	0	96	439
50,000	0	0	0	189

TABLE 4

PERCENTAGE DISTRIBUTION OF CHILD TAX CREDIT FAMILIES AND BENEFITS, BY INCOME, 1980 TAX YEAR

Net Family Income	Families	Credit
$0 - 22,000	72.1%	79.7%
22,000 - 28,000	20.9	16.9
28,000 and over	6.9	3.3
TOTAL	100.0	100.0

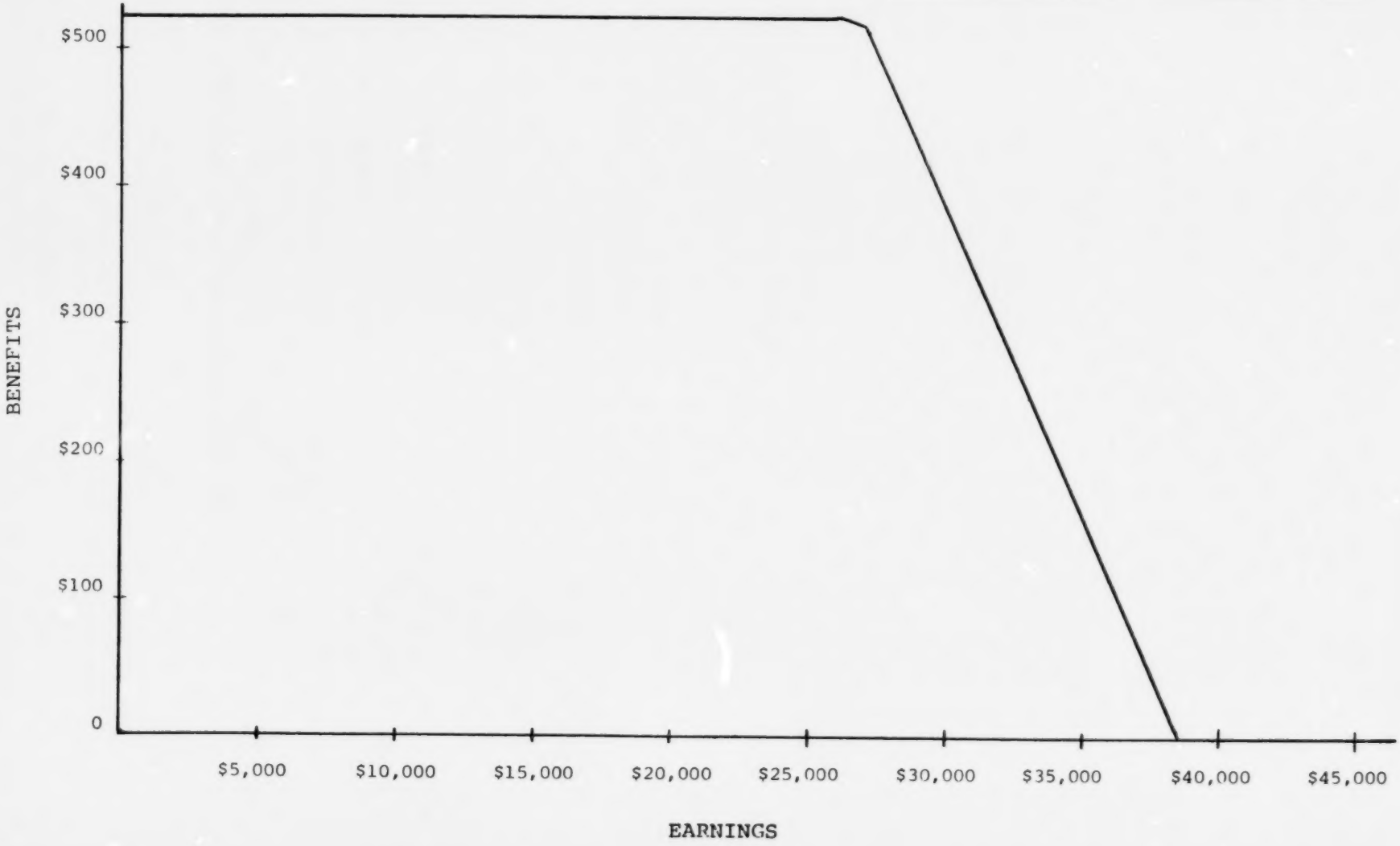
run a much higher risk of poverty than couples with children. (In 1980, the latest year for which complete data is available, 48.5 percent of one-parent families headed by women and 19 percent of those led by men were below the poverty line, compared to only 8.8 percent of couples with children).[12] An estimated 80 percent of one-parent households qualified for the child tax credit at last count, compared to 56 percent of couples. The overwhelming majority of single parents who receive the child tax credit have low or modest incomes; 85 percent were below $15,000 in 1980, compared to only 31 percent of couples. Two in ten families which get the child tax credit are headed by a single parent.[13]

Figure 2 plots the distribution of child tax credits received in 1982 in respect of the 1981 taxation year.[14] The progressivity of the program shows up sharply and clearly: maximum benefits ($522 for two children) went to families with 1982 earnings up to $26,000, after which the child tax credit angled steeply downwards to disappear once earnings reached just over $38,000.

As Table 5 demonstrates, on a nationwide basis close to two and a half million families - 69 percent of all those with children under the age of 18 - receive the child tax credit. However the proportion of child tax credit families is significantly higher in the Atlantic provinces (82 percent), Manitoba (80 percent) and Saskatchewan (76 percent). These results are not unexpected, since the provinces with above-average concentrations of child tax credit families also have above-average rates of family poverty and below-average family incomes.[15] The child tax credit, then, most benefits those provinces which need the program most.

FIGURE 2

CHILD TAX CREDIT, BY EARNINGS, 1982*



* Couple, two children

TABLE 5

CHILD TAX CREDIT (CTC) STATISTICS,
BY PROVINCE, 1980 TAX YEAR

	No. of CTC Families	Average Credit Per Family	CTC Families as a Percentage of All Families With Children
Newfoundland	81,851	$495.83	85.1%
Prince Edward Island	16,237	462.52	87.4
Nova Scotia	103,552	422.95	80.3
New Brunswick	90,481	447.99	81.8
Quebec	685,397	398.38	71.6
Ontario	839,123	392.38	66.1
Manitoba	117,401	446.31	79.7
Saskatchewan	108,159	465.92	76.4
Alberta	194,840	417.50	59.5
British Columbia	230,197	386.95	59.4
Yukon	1,898	408.32	50.4
Northwest Territories	5,420	576.20	68.7
CANADA	2,478,158	408.83	68.9

Children's Tax Exemption

The oldest, yet probably least familiar federal child benefit, is the tax exemption for dependent children. Since 1918, taxfilers have been allowed to deduct a specified sum of money for each dependent child when calculating their taxable income. For the current (1983) tax year, the exemption is $710 for every child under 18. In the case of two-parent families, the taxfiler with the higher income claims the exemption.

The reason the children's tax exemption is often forgotten when discussing child benefits is that many people do not regard tax expenditures as government programs. Yet the money the children's tax exemption pays out in the form of reduced income tax is every bit as real as that delivered by direct spending programs like family allowances. And the money the children's tax exemption costs the federal and provincial treasuries in foregone tax revenue (an estimated $1.1 billion for the 1982 tax year) is just as real as that spent on family allowances.

Where the children's tax exemption does depart radically from family allowances and the child tax credit is in its distribution of benefits. While the progressivity of the personal income tax system results in a progressive pattern of net family allowances - benefits decrease as incomes increase - it does exactly the opposite for the children's tax exemption, which is a regressive program delivering larger benefits to higher income families. To understand this reverse-Robin Hood impact of the children's tax exemption, we must look briefly at how the income tax system operates.

The federal income tax system divides incomes into 13 tax brackets. Taxable income in the lowest bracket (below $1179 for the 1983 tax year) is taxed at a rate of 6 percent; income in the next bracket ($1179 to $2358) is taxed at a 16 percent rate; and so on up to the highest tax bracket in which income above $141,480 is taxed at a rate of 34 percent.[16] With the exception of Quebec, which has its own progressive income tax system, the provinces calculate their personal income tax as a percentage of federal tax. Therefore the combined federal and provincial tax rate for each tax bracket is higher than the federal rate; an Ontario taxpayer, for example, pays 8.9 percent of his or her income in the lowest tax bracket - 6 percent to the federal treasury and 2.9 percent in provincial income tax.

The higher the tax bracket, the higher the rate at which income in that range is taxed. Such a ladder of tax rates is necessary in a progressive income tax system based on the principle of ability to pay.

Each time an individual earns an additional dollar of income, it goes into his or her highest tax bracket and is taxed at the highest applicable rate (the taxpayer's 'marginal tax rate'). In the same way, each time a dollar of income is exempted from taxation, it comes out of his or her highest tax bracket. A tax expenditure such as the children's tax exemption is worth a lot to a high-income taxpayer because it reduces the slice of income which is taxed at the highest rate, and in some instances moves the taxpayer down a notch into a lower tax bracket with a lower marginal tax rate. While a middle-income taxpayer also can reduce his taxable income by the same $710 for each of his children, the tax saving that results is less because his marginal tax rate is lower than that of the affluent

taxpayer. In the case of a parent whose income is already so low that he or she pays no income tax, the children's tax exemption simply does not apply.

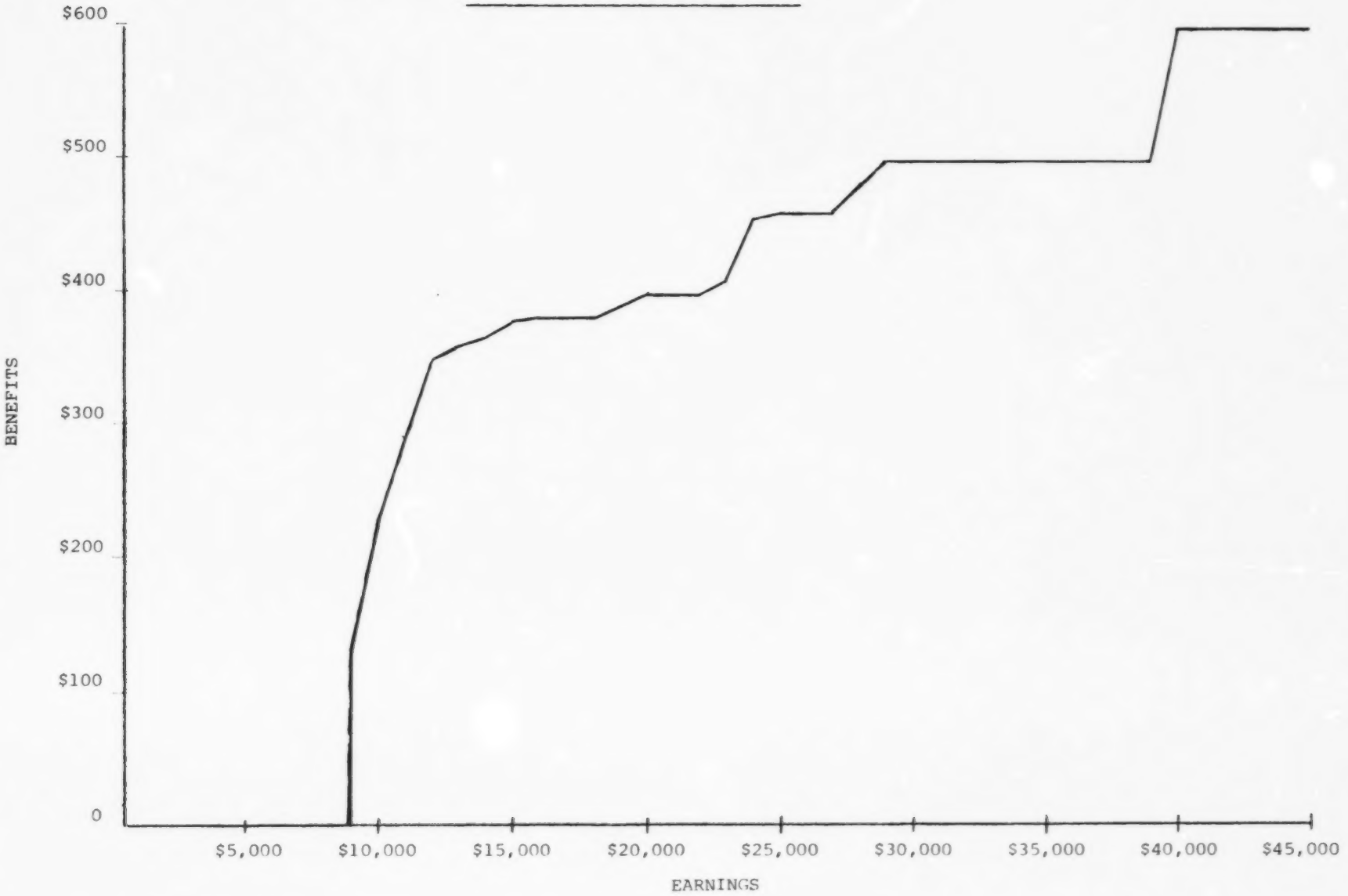
Take, again, the case of a one-earner couple with two children. The children's tax exemption lowered the 1982 taxable income of an affluent family with earnings of $50,000 from $42,807 to $41,467, which meant a $595 smaller tax bill. A middle-income family head earning $25,000 deducted the same $1,340 for his two children, but obtained a tax saving of only $456 - $139 less than that of the high-income taxpayer. A low-income couple with two children and earnings of $10,000 got only $223 from the exemption. And the poorest families, earning $8,500 or less, did not benefit one cent from the children's tax exemption.

Figure 3 shows the distribution of children's tax exemption benefits in 1982 for a one-earner couple with two children.[17] Two features of the children's tax exemption stand out. The line connecting benefits to earnings curves upwards, illustrating that the program is <u>regressive</u> - the more you make, the more you get. Families at the low end of the income scale (in our example, those earning $8,500 or less) receive nothing at all from the children's tax exemption, indicating that it is a <u>selective</u> program. However unlike the child tax credit, which excludes the affluent, the child tax exemption excludes the poorest families with children.

The statistics prove that the well-off reap the lion's share of the rewards from the children's tax exemption, while low and moderate-income families get the least. Taxfilers in the bottom half of the income scale account for only 10 percent of total tax savings from the exemption, while the upper half

FIGURE 3

CHILDREN'S TAX EXEMPTION,
BY EARNINGS, 1982 *



* Couple, two children

enjoy 90 percent of the benefits. In fact taxfilers in the top 20 percent of the income range receive over half of all tax savings from the children's tax exemption.

The Roller Coaster Result

Table 6 summarizes the key characteristics of the three federal programs for families with children. The family allowance is the most expensive, benefits all households with children (i.e., it is universal), and helps low-income families most and the rich the least (i.e., it is progressive). The child tax credit is selective in favour of low and middle-income families (it excludes the affluent) and has a progressive impact. The children's tax exemption makes no sense as a social program: it excludes the poorest families with children and delivers its greatest benefit to those with high incomes.

TABLE 6

FEDERAL CHILD BENEFITS, 1983

	Cost ($ billions)	Eligibility	Distribution of Benefits
Net family allowances	1.64	universal	progressive
Child tax credit	1.45	selective	progressive
Children's tax exemption	1.10	selective	regressive
TOTAL	4.19		

The sum total of the three child benefit programs also makes little sense as social policy. The progressive impact of family allowances and the refundable child tax credit is cancelled out by the help-the-rich-most effect of the children's tax exemption.

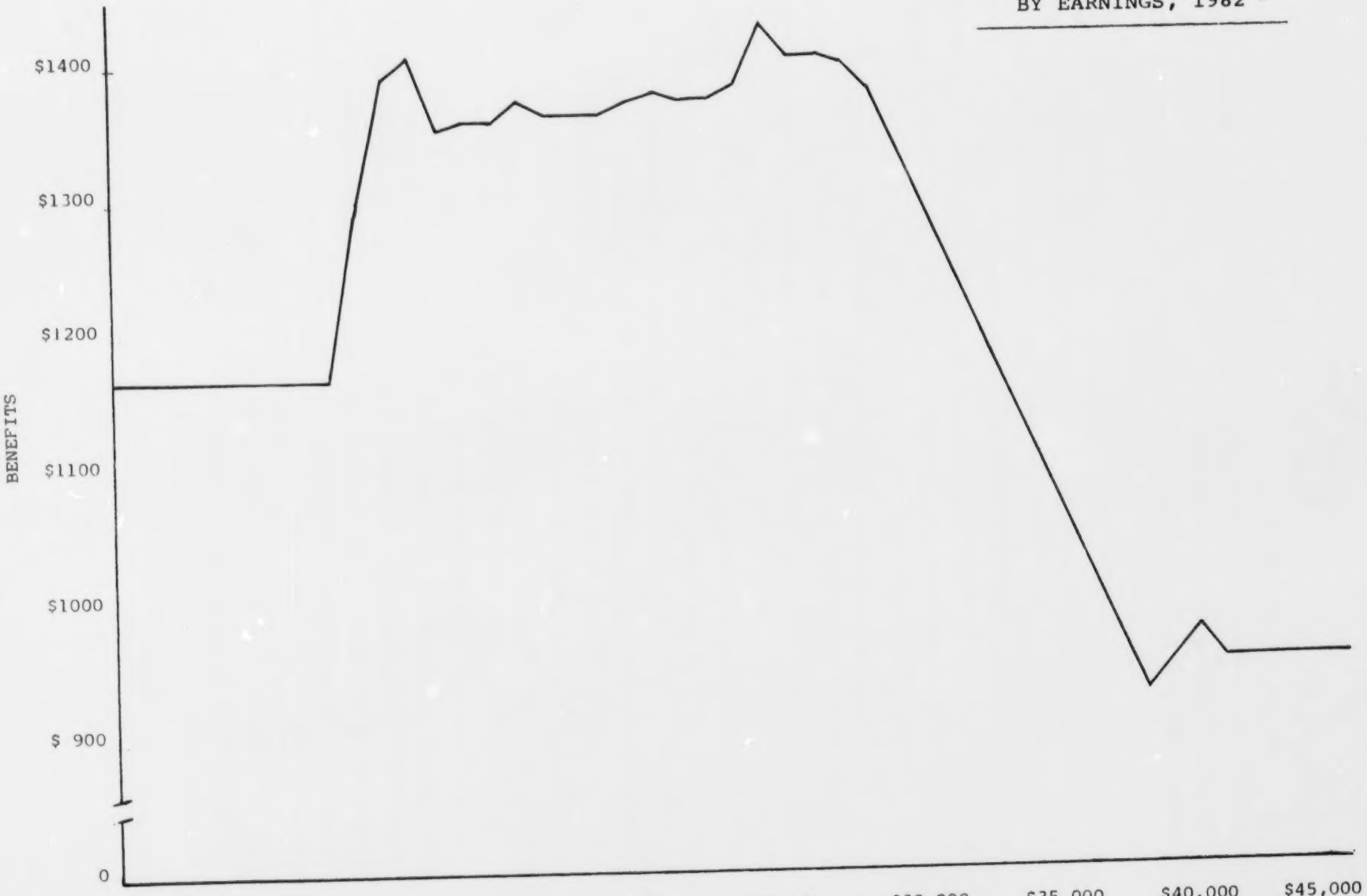
The following diagram illustrates the illogical distribution of benefits that results when the three programs are added together. Like the preceding graphs, Figure 4 illustrates the pattern of benefits for a one-earner couple with two children.[18] The curve matching benefits to income can best be described as a roller coaster.

In 1982, the poorest families (those with earnings below $8,500) received $1,168 - $646 in family allowances, $522 from the child tax credit, and nothing from the children's tax exemption. Total benefits increase to $1,293 for a family with $9,000 in earnings because it benefits slightly from the children's tax exemption and still receives the maximum family allowance and child tax credit. The curve continues to climb until earnings reach $11,000, where benefits for the three programs amount to $1,404. The line then declines to $1,353 for a family earning $12,000; it climbs slowly back up to a peak of $1,428 for a family at the $24,000 mark; descends steadily until it bottoms out at $930 for those earning $38,000; rises again to $977 for a family earning $40,000; and dips to $954 for those between $41,000 and $50,000.

Although the erratic distribution of federal child benefits is hard to rationalize, it is not difficult to explain. The poorest families receive two child benefits - family allowances and the child tax credit - at the maximum rate; they do not profit from the children's tax exemption because their

FIGURE 4

FEDERAL CHILD BENEFITS, BY EARNINGS, 1982 *



* Couple, two children

incomes are so low they are not taxed. The majority of families (in our example of a couple with two children, those earning between $8,600 and $38,000 in 1982) are eligible for all three family benefits. While the amount they get from each program is determined by their level of income - net family allowances and the child tax credit decrease as incomes increase, while the children's tax exemption works the opposite way - the three benefits do not vary with income in the same direction or at the same rate, which means that the relationship between total benefits and earnings does not result in a smooth, regular curve.

For example, a family earning $15,000 (more than $2,000 below the poverty line) received $474 in net family allowances, $522 from the child tax credit and $376 from the children's tax exemption, for a total benefit of $1,372 in 1982. A family earning $24,000 - $9,000 more than the first family - ended up with a higher total benefit; it received a lower net family allowance ($454) and the same child tax credit ($522), but it benefited substantially more from the children's tax exemption ($452 as opposed to $376), producing a total child benefit of $1,428 - $56 more than the poor family.

In our example, families earning $39,000 or more do not qualify for the child tax credit. Their major benefit is the children's tax exemption, which is substantially more lucrative than their net family allowance; the children's tax exemption makes up 62 percent of the total child benefit for families earning from $41,000 to $50,000. Bizarrely, however, families above $40,000 actually got more than those in the $38,000 to $39,000 range; the more affluent group's lower net family allowances were more than compensated for by its higher tax savings from the children's tax exemption.

The distribution of federal child benefits is more than peculiar: it is very inequitable. Benefits are not geared to financial need, to the detriment of low-income families with children.

An Ontario couple with two children and one earner paid at the minimum wage received a total child benefit of $1,168 in 1982 - $646 in family allowances and $522 from the child tax credit, though it was too poor to benefit from the children's tax exemption - bringing its total income to $8,448. While the family in question fell $9,680 below the poverty line for Toronto, the family allowance and child tax credit provided a sorely-needed supplement that reduced the poverty gap by almost $1,200. Yet a family with earnings at the level of the average industrial wage (about $20,500) in 1982) ended up with a total child benefit of $1,378 - $210 more than the poor family.

Few would question the second family's need for financial assistance in raising its children; after all, its total income of $21,378 was substantially below average family income (approximately $31,000 in 1982). But why should its child benefit be higher than that given to the poor family? More important still from the viewpoint of sensible social policy, why should a family living on $50,000 - seven times the earnings of the mimimum wage family - be allowed a $954 benefit which is only 20 percent less than the $1,168 given the poor family? Federal family benefits are crucial to the low-income family's survival: the affluent family's gift of close to $1,000 patently is not.

THE ARGUMENTS

Despite the existence of the three federal child benefits examined in the preceding chapter, public attention is almost always centered on the most visible among them, the family allowance. Unfortunately the preoccupation with whether or not this program should continue to serve all families regardless of their income unnecessarily restricts the scope of public debate. A rational discussion of family allowances must also take into account the cost and impact of the child tax credit and the children's tax exemption, evaluating all three programs together as a social policy for families with children.

Nevertheless it is important to understand the arguments that have been made for and against the universality of family allowances. We begin with the views of those who would change family allowances from a universal to a selective program.

Repeal Universality

Opponents of paying family allowances on a universal basis argue that upper-income parents do not need government financial assistance to raise their children. Mailing monthly cheques to all families regardless of their income is seen as a costly waste of public funds, especially in today's tough economic climate. According to this school of thought, family allowances should become a selective program. Better-off families should be excluded and benefits reserved for those who really need them.[19]

Critics of universal family allowances differ on what they would do with the savings that would be realized by cutting

affluent families out of the program. There was speculation last autumn that the federal Cabinet was contemplating such a change in order to free up funds for job creation initiatives. Some people believe that Canada no longer can afford social spending of the present magnitude; they look to belt-tightening cuts in universal programs such as family allowances and Old Age Security as one way of financing economic recovery without increasing the $26 billion federal deficit. Others would keep the money in the child benefits sector but re-direct it to lower-income families through the child tax credit.

Retain Universality

The arguments in favour of maintaining family allowances as a universal program can be divided into four categories: social, economic, political and administrative.

The founders of family allowances intended the program to serve as a tangible recognition by society of the contribution that all parents make in raising future citizens and members of the labor force. Just as the children's tax exemption had for decades taken into account the cost and value of child-rearing by easing the tax burden of taxpayers who support children, so also would family allowances recognize the important role that parents play. Family allowances help compensate for the fact that the wage system does not make adjustment for the extra financial responsibilities borne by earners with dependent children. Supporters of universal family allowances believe that this basic social objective is as legitimate today as it was when the program began almost forty years ago.

Even those who reject the argument that society should acknowledge the contribution of all parents, irrespective of

their income, still may support the universality of family allowances for another reason. They regard universal programs such as family allowances, Old Age Security, the Canada Pension Plan and unemployment insurance as the indispensable and hard-won foundation upon which rest selective social programs geared to families and individuals in financial need. All Canadians, no matter where they live or what their income, benefit from universal programs at some point in their lives. Abandoning the principle of universality in so prominent a benefit as family allowances would weaken the foundation of Canada's social security system. Over time, taxpayers' support for social spending would decline and people who have to turn to selective programs for financial assistance would suffer as a result.

This argument is not so theoretical as it might seem. Rightly or wrongly, many middle-income Canadians feel that they bear more than their share of the tax burden relative to what they get from government in return. Universal programs such as family allowances and Old Age Security are among the few benefits that most taxpayers receive from the social security system. The middle-class majority's willingness to finance improvements in selective social programs directed to low-income persons, or even to maintain such spending at its present level, could well decline if universal measures such as family allowances were dismantled.

The retreat from universality could harm lower-income families in another way. Selective social programs that are targetted to the poor tend to stigmatize their recipients, setting them apart from the rest of society. Provincial social assistance ('welfare') is the classic example of a selective benefit which, according to the critics, treats its recipients

as second-class citizens and helps perpetuate rather than alleviate their problems. Universal programs, on the other hand, serve all Canadians who share a commonplace characteristic which is not related to financial need. The family allowance goes to all families who have children under the age of 18, Old Age Security to all men and women 65 and older, and unemployment insurance to all the unemployed. Canadians from different income levels share alike in these universal benefits.

Therefore universal social programs unite Canadians and foster a sense of community, whereas selective benefits tend to divide society and to reinforce economic inequalities. It can be argued that the retreat from universality in so prominent a program as family allowances could spread to other universal social benefits. A significant but often overlooked force for community and national unity would be lost, and poor people would be even further isolated from the rest of society.

Universal family allowances also have been defended on the grounds that they 'belong to women'. According to this popular argument, family allowances are the only source of income to which all Canadian mothers are entitled as a right. There are cases, even in affluent families, where husbands refuse to provide adequately for their wives and children. As long as matrimonial property laws deny married women an equitable share of their families' financial resources, it would be unreasonable to take away from some of them a long-standing right like family allowances on the assumption that their husbands' income is also their own.

Moreover there has been little progress in recent years in narrowing the economic gap between men and women, so it

would make little sense to weaken further the financial position of women as a group. Universal family allowances are also viewed as society's recognition of the value of child-raising work done by women.

Though family allowances are primarily social in purpose, they also have a positive economic impact which could suffer as a result of a change from universality to selectivity. One of the reasons the family allowance was legislated in the first place was to stimulate consumer spending and so help prevent a downturn when the wartime economy returned to peacetime production. No matter how the family allowance cheque is spent - conventional wisdom says that low and middle-income families devote theirs to necessities, while affluent mothers often regard theirs as pocket money - the program pumps cash into the economy, which buys goods and services and, in turn, helps create and sustain jobs.

The shift from a universal to a selective basis could weaken family allowances' economic stimulus, especially at a time when many Canadian businesses are desperate for customers. Re-channelling money from family allowances to job creation could prove a case of robbing Peter to pay Paul. Indeed more jobs might be lost as a result of cutting family allowances than would be created by sacrificing family allowance funds to the job creation effort.

The argument that restricting family allowances would constitute a false economy is given additional weight when we examine the savings that actually would result. If, for example, family allowances were denied to families whose incomes are high enough that they are not eligible for the child tax credit - the

top 28 percent of families with children - gross savings for the 1981-82 fiscal year would have been about $560 million, reducing costs from $2 billion to $1.44 billion. However the real savings would be lower because the treasury would lose the amount of income tax these higher-income families pay on their family allowances - about $185 million. Therefore net savings would have been only $375 million.[20] In view of the vast sums needed to create jobs - the New Employment Expansion and Development (NEED) program will provide only 120,000 jobs lasting on average 30 months, at a cost to the federal and provincial governments of about $1 billion[21] - and the loss of employment as a result of reduced consumer spending, the shift from universal to selective family allowances could prove to be a short-sighted economic policy.

The political reasons for keeping the family allowance universal are straightforward enough. It is a popular program which benefits millions of families and children throughout the country. To alter the universal basis of family allowances would be to renege on what has been termed a 'social contract' between Canadians and the federal government. A government which tampered with the principle of universal payment would risk alienating a large segment of the electorate, and an opposition party which added the repeal of universal family allowances to its platform might lose more votes than it would gain from the proposal. Even if family allowances were denied to only a minority of well-off families, the anxiety and uncertainty engendered among many families with children - even those who would not be affected by the change - could prove a political liability that might haunt a political party at the next election.

Finally, family allowances present some design advantages that would be lost if they were made selective. The best way

to appreciate the program's administrative virtues is to mention a few of the difficulties that would be encountered if it were put on a selective footing.

The easiest way to determine eligibility for a selective family allowances program would be to use income as reported when people fill out their income tax form; this is the technique used by the child tax credit. So long as income remains relatively stable from year to year, this method is acceptable. The problem is that the income tax form records income from the previous year. Many families experience a substantial rise or fall in their income from one year to another. As a result, some well-off households which really should not qualify for selective family allowance would receive benefits anyway if their incomes last year were lower. Worse still, a family might suffer an income loss (because of unemployment, disability or the death of a breadwinner) but not get the family allowance it needs because its income the year before was too high.

An alternative would be to test the current year's income so that family allowances matched present needs. Unfortunately it is extraordinarily difficult to devise a practicable procedure for gauging current income. A family's income may fluctuate from month to month within the same year, so there would still be cases of overpayment or underpayment that would have to be reconciled at year's end. A more frequent test of income would reduce the mis-match between benefit and need, but would require a burdensome and costly reporting system that would pose problems for administrators and recipients alike.

Family allowances in their present form do not fall prey to these administrative snares. Overhead costs are low - less

than 1 percent of payments. There is no need for a test of income because the program is universal. Actual benefits (i.e., family allowances less income tax paid on them) are reasonably responsive to need because most people pay taxes on a monthly basis through their pay cheques. Family allowances reach virtually all who qualify for them, whereas the takeup rate would be lower if applicants had to declare their income in order to qualify for benefits. Whatever a family's economic fortunes, it can look forward to a predictable, frequent income supplement from the family allowance, delivered with a minimum of red tape.

A PROPOSAL

Any worthwhile proposal for change must consider all three federal programs for families with children, not just family allowances in isolation. We believe the reform of child benefits should achieve three key objectives: redistribute resources to families who need them most; maintain a foundation of universal payments for all families with children; and require no increase in government spending.

The National Council of Welfare proposes a major restructuring of federal child benefits. The children's tax exemption should be abolished and the savings that result reallocated to increase the refundable child tax credit. Family allowances should remain a universal, taxable benefit.

If the money the federal government spends on the children's tax exemption were redistributed to the child tax credit and the family income ceiling for maximum payments were lowered from the current $26,330 to $21,000, the child tax credit payable in 1983 could be raised from $343 to $575 a child. Low and modest-income parents, who qualify for the maximum benefit, would enjoy a 68 percent boost in their child tax credit.

We also recommend three changes in the design of the child tax credit. The enriched child tax credit should be paid more than once a year. The income cut-off for the maximum credit should be lowered to better target benefits on families in financial need. And the income definition used to determine eligibility for the child tax credit should be amended to

disallow deductions for registered pension plans, retirement savings plans, and home ownership savings plans.

Children's Tax Exemption

The case for eliminating the children's tax exemption is unassailable. It costs over $1 billion and delivers its greatest benefits to well-off families who do not need government financial assistance, while excluding the poorest Canadian families with children.

The child tax credit, in contrast, delivers its maximum payment to families with below-average incomes, provides smaller benefits to middle-income families, and excludes the affluent. Diverting funds from the regressive children's tax exemption to the progressive child tax credit will redistribute benefits from upper-income families who least need a subsidy to poor families who need all the financial help they can get in raising their children.

Child Tax Credit

At the present time the child tax credit is paid once a year in a lump sum. Many families, particularly those with limited incomes, welcome the annual payment as a way of financing major purchases that their normal budgets are hard pressed to allow. Others have argued that the child tax credit should be delivered more frequently throughout the year, so that the money could be used to help pay for routine items such as food, utilities and clothing.

Our proposal will result in a substantial boost in the child tax credit. A family with two children and a 1982 income below $21,000 would receive $1,150 this year as opposed to $686 under the existing program; an extra child would bring the total to a sizeable $1,725. We believe that families would benefit more if they got the enriched child tax credit several times a year, especially since the installments still would amount to considerable payments. Parents who need a child bonus more than once a year now would have it, while those who want to save up their installments to pay for large purchases or accumulate savings would be free to do so.

Therefore we recommend that the enriched child tax credit be paid more than once a year. One option worth considering would be to divide the credit into three installments - the first in the spring, the second in late summer just before school begins, and the third before Christmas.

The child tax credit is geared to low and moderate-income families. Full benefits this year go to families whose income in 1982 was $26,330 or less; the credit is reduced by 5 cents for every dollar of income above $26,330. However a ceiling as high as $26,330 means that some relatively well-off families still qualify for a partial benefit. For example, a taxpayer supporting a spouse and two children on 1982 earnings of $35,000 - $15,000 above the average industrial wage - will receive a child tax credit of $253 this year under the current program.

Lowering the income threshold for maximum benefits will better target the child tax credit on families that need it. We recommend that the ceiling be reduced from $26,330 (which represents about 85 percent of average family income) to $21,000, which is approximately two-thirds of average family income

and 1.16 times the poverty line for a family of four. With a $21,000 turnover point, the child tax credit would provide its maximum benefit to poor and near-poor families with children and diminishing payments to middle-income households. The enriched child tax credit should remain fully indexed to the cost of living as measured by the Consumer Price Index.

The income definition used to determine eligibility for the child tax credit also should be improved. At the present time, an applicant is allowed to deduct contributions she and her spouse make to registered pension plans, retirement savings plans and home ownership savings plans when calculating net family income. As a result, a family whose real income is too high to qualify for any child tax credit may end up receiving a benefit if (as is likely) it manages to reduce its income sufficiently by deducting contributions to RRSPs, RHOSPs and private pension plans. Similarly, a family may receive the maximum amount of the child tax credit when - if such deductions were not allowed - it would get only a partial benefit.

This problem can be illustrated using the example of a one-earner couple with two children and earnings of $41,000 in 1982. Suppose that the breadwinner contributed $2,500 to a registered pension plan, $1,000 to a retirement savings plan and $1,000 to a home ownership savings plan. (These assumptions are realistic, since higher-income Canadians are in a better financial position to take advantage of such tax-reducing savings and investment vehicles). If the child tax credit did not permit the deduction of contributions to private pension plans, RRSPs, and RHOSPs, the family in question would not qualify for any benefits. However the existing 'net family income' definition does allow these contributions to be deducted, which means that

the family can reduce its income for child tax credit purposes by $4,500 and thereby qualify for a benefit of $199.

A simple change in the income tax schedule so that the income definition no longer permitted the deduction of contributions to registered pension plans, RRSPs and RHOSPs would plug this wasteful leak of child tax credit money to affluent families. The savings that result should be used to help increase child tax credit payments to low and modest-income families.

Family Allowances

We see no compelling reason at the present time to change the family allowance program. The taxability of family allowances ensures that they benefit poor Canadians most and the affluent the least. From an equity point of view, it makes far more sense to cut the regressive children's tax exemption rather than tamper with the progressive family allowance. Moreover our proposal for a restructured child benefit system will substantially reduce payments to upper-income families; for example, those earning $50,000 will have their benefits cut by 60 percent.

There is also a strong case to be made for the principle of universality. The arguments are summarized below; the reader should refer back to the previous chapter for an elaboration of them.

Universal family allowances recognize the value our society places on child-rearing. They constitute a modest but significant source of independent income for mothers, especially for those who work full-time in the home; ending universal payment of family allowances would simply widen the economic gap

that persists between men and women. By stimulating consumer spending, family allowances help create and sustain employment; more jobs might be lost than gained if funds were diverted from family allowances to direct job creation schemes that provide only temporary work. In any event, the savings realized by disqualifying upper-income families from family allowances would not be large enough to make a perceptible dent on unemployment.

The most compelling argument in favor of universal family allowances is the role they play as part of the foundation of Canada's social security system. All Canadians, no matter what their economic status, benefit at some point in their lives from universal measures such as family allowances, old age pensions and medicare, whereas only a minority have to turn to selective programs and services aimed at those in financial need. Universal benefits help legitimize the social security system in the eyes of the Canadian people, winning taxpayers' support for social spending directed to low-income citizens. The abandonment of universal family allowances would threaten other universal programs and, in time, weaken public support for necessary improvements to selective programs designed for those in need. In the end, poor people could lose most from a retreat from universality.

The Benefits of Reform

The Council's proposal will maintain a universal system of federal child benefits, but it will be much more progressive than the one it replaces. The following table compares what two-parent families with two children received from the existing programs in 1982 with what they would get in 1983 under a restructured system.

TABLE 7

BENEFITS FOR FAMILIES WITH TWO CHILDREN FROM EXISTING SYSTEM (1982) COMPARED TO RESTRUCTURED SYSTEM (1983), BY EARNINGS

Earnings	Existing System 1982	Restructured System 1983	Difference
$8,000 or less	$1,168	$1,834	$666
12,000	1,353	1,662	309
15,000	1,372	1,646	274
20,000	1,378	1,635	257
25,000	1,404	1,498	94
30,000	1,286	1,243	-43
35,000	1,064	1,008	-56
40,000	977	773	-204
45,000	954	487	-467
50,000	954	381	-573

As Table 7 shows, the poorest families would enjoy a badly-needed $666 boost in combined benefits from the enriched child tax credit and family allowances. Other low and modest-income families also would realize substantial gains as a result of the reform. Families earning $28,000 or more would experience a reduction of benefits, though the loss would increase as earnings rose. Those in the top earnings bracket covered by the

table - $48,000 to $50,000 - would receive $573 less from the restructured system.[22]

Figure 5 illustrates the change our proposal would make in the distribution of child benefits. The dotted line relates benefits to earnings under the existing programs - family allowances, the child tax credit and the children's tax exemption - for 1982. The solid line shows the pattern of benefits in 1983 that would result from a restructured system comprised of an enriched child tax credit and the family allowance.

The roller coaster line produced by the existing system, in which benefits bear no rational relation to earnings, would be replaced by a smooth, descending curve indicating a progressive system which gears benefits to need. All families would continue to receive some payment in respect of their children, but the poor and near-poor would get substantially more and the affluent much less.

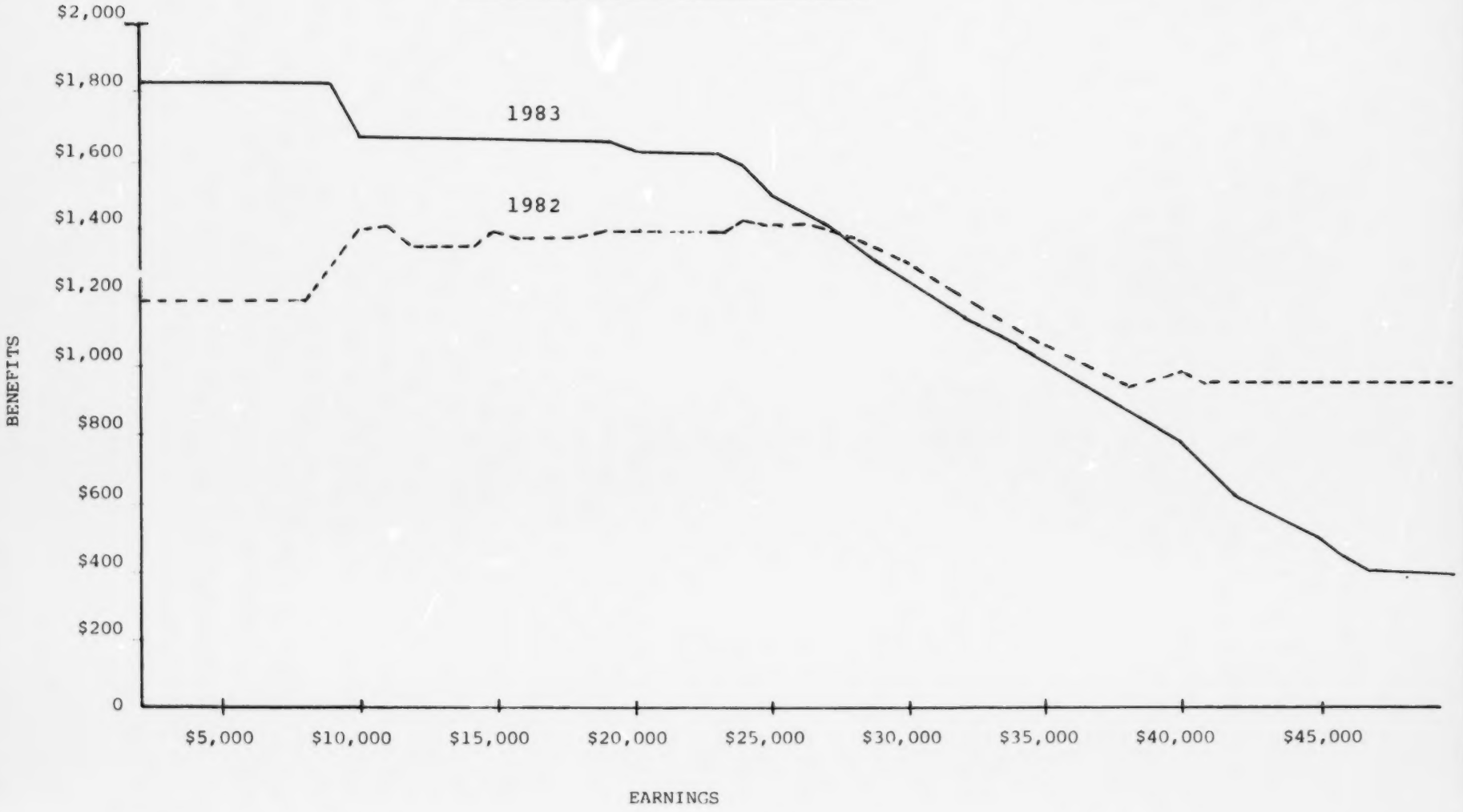
Our proposal will accomplish more than an equitable system of child benefits. It also will strengthen the federal government's fight against both poverty and unemployment.

Canada achieved considerable progress in reducing the risk of family poverty during the 'sixties and 'seventies. In 1969, one in five (20.8 percent) families lived below the poverty line. By 1981, the proportion of poor families had declined to one in eight (12.5 percent)

This improvement is due in part to the increase in two-earner families. Two wives in three are now in the labor force. Obviously families that have two breadwinners are better

FIGURE 5

EXISTING CHILD BENEFITS (1982)
AND PROPOSED REFORM (1983)*



* Couple, two children

off than if they had only one earner; even if one spouse becomes unemployed, the family still can count on his or her unemployment insurance payments to bolster the working spouse's paycheque. In fact there would be 55 percent more couples living in poverty if wives did not have jobs in the paid work force.

Advances in income security policy also have helped lower the risk of poverty and supplement the income of families. Federal child benefits have played an important role in this regard. Family allowances were tripled in 1974 and indexed to the cost of living. The refundable child tax credit in 1978 added a promising new program geared to lower-income families with children.

With the current recession threatening to slow if not reverse the long-term trend of declining family poverty, now is the time to take the reform of federal child benefits another large step forward. Eliminating the children's tax exemption and boosting the child tax credit will reduce the number of children living in poverty and improve the incomes of poor and near-poor families throughout Canada. The rapidly rising number of single mothers, almost half of whom live below the poverty line, will especially benefit from our proposals.[23]

A restructured system of child benefits will also help ease the effects of unemployment. In December 1982 there were more than a million families (1,124,000) with at least one earner out of work; the large majority of these families - 836,000, or three in every four - have children to support. Our reforms will supplement the incomes of thousands of parents confronted with straitened finances as a result of prolonged unemployment.

The poor and the unemployed will profit from the reform of child benefits: so also will the economy. The Council's proposal will increase the disposable income of low and moderate-income families with children. Not only will this extra money help stretch their limited budgets, but it also will stimulate consumer spending which, at a time when Canadian businesses are eager for customers, will contribute to economic recovery.

The proposed reform of federal child benefit programs offers one additional advantage. The restructured system will not add one cent to government spending because it will be financed through a reallocation of existing resources. For the same amount of money more wisely spent, the federal government will achieve an equitable child benefit system that combats poverty, eases the burden of unemployment and creates jobs. Our proposal is as fiscally responsible as it is socially just.

FOOTNOTES

1. Guest, Dennis. The Emergence of Social Security in Canada (Vancouver: University of British Columbia Press, 1980), pp. 79-81, 128-133, 175-176. A 1970 White Paper, Income Security for Canadians, proposed the family allowance be replaced by an income-tested Family Income Security Plan that would deliver maximum allowances to the lowest-income 20 percent of families, diminishing benefits to those up to $10,000, and nothing to the 30 percent of families at the upper end of the income scale. The plan met with considerable opposition and was not implemented.

2. The Honourable Marc Lalonde. House of Commons Debates Volume 124, Number 401 (November 3, 1982), p. 20341.

3. Quebec also has its own provincial family allowances (hereafter referred to as Quebec Family Allowances). The 1983 monthly rates are $7.52 for the first child, $10.05 for the second, $12.55 for the third, and $15.05 for the fourth and each additional child.

4. Income Security Programs Branch. Monthly Statistics: Income Security Programs (Ottawa: Health and Welfare Canada, December 1982), p. 15. The percentages shown in the last column were calculated on the basis of family allowance data from the June 1981 edition of Monthly Statistics: Income Security Programs (accounts payable to child maintenance agencies excluded) and statistics on the number of families in each province from the 1981 Census; see Statistics Canada, Census families in private households: Persons, children at home, structure and type, living arrangements (Ottawa: Minister of Supply and Services Canada, September 1982), Table 1.

5. For a discussion of this issue, see National Council of Welfare, The June 1982 Budget and Social Policy (Ottawa: July 1982).

6. The federal share of tax revenues from family allowances is $400 million and the provinces will receive $160 million.

7. For income tax purposes, family allowances are treated as income of the parent who claims the children's tax exemption. If the latter is not claimed, family allowances are considered as income of the person to whom they are paid. Quebec taxes neither federal family allowances payable in Quebec nor Quebec Family Allowances, though the federal government does tax federal family allowances payable in Quebec as well as Quebec Family Allowances paid on behalf of 16 and 17 year-olds.

8. We assume the following: taxpayers are aged under 65 and have a spouse and two children under 18; the taxpayer is the sole earner of the family; family allowance payments, at the 1983 rate, are added to earned income in calculating tax liability; the basic personal exemption, married exemption, exemption for wholly dependent children, $100 standard deduction, employment expense deduction and deductions for Canada or Quebec Pension Plan and Unemployment Insurance contributions are taken into account. All figures are for the 1983 taxation year. These assumptions also apply for Table 2.

9. The same assumptions as above apply for Figure 1 except that all tax calculations are for the 1982 taxation year and family allowances are at the 1982 rate.

10. The maximum child tax credit of $343 includes a special one-time $50 increase to compensate for the effects of the 6 and 5 program on the indexation of family allowances for 1983 and 1984. See National Council of Welfare, The June 1982 Budget and Social Policy (Ottawa: July 1982). Estimated child tax credit expenditures for the 1982 taxation year include $250 million for the special $50 increase.

11. Calculations performed by the National Council of Welfare are based on data from Revenue Canada, Taxation, 1982 Taxation Statistics (Ottawa: Minister of Supply and Services Canada, 1982), Table 17. Average family income in 1980 (the year to which the child tax credit statistics apply) was $27,398.

12. Statistics Canada. Income distributions by size in Canada 1980 (Ottawa: Minister of Supply and Services Canada, June 1982), p. 141.

13. Revenue Canada, Taxation. 1982 Taxation Statistics (Ottawa: Minister of Supply and Services Canada, 1982), Table 17.

14. To keep Figure 2 consistent with the other graphs, we show the child tax credit received in 1982, based on the 1981 taxation year. Since the industrial composite wage for 1982 was an estimated 11% higher than in 1981, we assume that the families in Figure 2 had 1981 earnings 11% lower than the 1982 earnings shown on the horizontal axis.

15. Child tax credit data are from Revenue Canada, Taxation, 1982 Taxation Statistics (Ottawa: Minister of Supply and Services Canada, 1982), Table 18. "All families with children" are families receiving family allowances, from Income Security Programs Branch, Monthly Statistics: Income Security Programs (Ottawa: Health and Welfare Canada, December 1980), p. 16.

16. The government does not tax the first few dollars of income; this income (below the tax-paying threshold) falls into a zero tax bracket. For the 1983 taxation year, the tax rates and brackets are as follows:

    6% (under $1,179); 16% ($1,179 - $2,358), 17% ($2,358 - $4,716); 18% ($4,716 - $7,074); 19% ($7,074 - $11,790); 20% ($11,790 - $16,506); 23% ($16,506 - $21,222); 25% ($21,222 - $25,938); 25% ($25,938 - $33,012); 30% ($33,012 - $56,592); 34% ($56,592 - $91,962); 34% ($91,962 - $141,480); 34% ($141,480 and more).

17. See footnote 9 for assumptions.

18. Figure 4 shows combined benefits from family allowances, the child tax credit and the children's tax exemption received in 1982, based on the assumptions underlying Figures 1 through 3.

19. The conventional approach would be to apply a test of income. An alternative method, which would maintain the appearance of universality, would be to continue universal payment but subject benefits to a surtax. In effect, in most upper-income families the wife would receive a family allowance cheque each month but her husband would pay back the money at income tax time. For an incisive discussion of this proposal and other aspects of income security programs, see Michael Mendelson, Universal or Selective? the debate on reforming income security in Canada (Toronto: Ontario Economic Council, 1981), especially pp. 62-67.

20. The figures comes from the Canadian Council on Social Development, as reported by Charlotte Montgomery, "Don't cut baby bonus: council", The Globe and Mail (Toronto), November 10, 1982.

Taxation data show that the large majority (84 percent) of taxfilers who received family allowances during the 1980 tax year had incomes below $30,000, and they accounted for 82 percent of total payments. Only 16 percent of taxfilers who received the family allowance enjoyed incomes over $30,000. See Revenue Canada, Taxation, 1982 Taxation Statistics, Table 2.

21. Beltrame, Julian. "Government job creation -- billion-dollar flop?" The Citizen (Ottawa), February 5, 1983. Estimates of the number of jobs that will be created by the NEED program range from 80,000 to 120,000, which pale in comparison to the number of Canadians officially classed as unemployed - 1,598,000 as of January 1983.

22. The 1983 statistics in Table 7 and Figure 5 assume that 1982 earnings, for child tax credit purposes, were 6 percent less than earnings in 1983.

23. Single-parent families in Canada rose from 559,330 in 1976 to 714,005 in 1981 - a 28 percent increase, in contrast to 8.5 percent for couples. See Statistics Canada, "Canada Update from the 1981 Census", number 3.

MEMBERS OF THE NATIONAL COUNCIL OF WELFARE

Mad. Yvonne Raymond (Chairperson)
Montreal

Ms. T. Ann Brennan
Bath, New Brunswick

Mad. Alma Gagnon
Saint-Paul-du-Nord, Quebec

Mad. Camille Girard-McClure
Dolbeau, Quebec

Ms. Joyce Kert
Weston, Ontario

Mr. Jack Kirley
Calgary, Alberta

Mad. Marthe Leroux
Quebec City, Quebec

M. Pierre Levasseur
Drummondville, Quebec

Ms. Grace Long
Burnaby, British Columbia

Ms. Joyce McLellan
Newport, Prince Edward Island

Mr. Robert Mondor
Montreal, Quebec

Ms. Evelyn Murialdo
Toronto, Ontario

Ms. Gail Newall
Markham, Ontario

Ms. Elizabeth Paulson
Wynyard, Saskatchewan

Dr. Gerry Rosenquist
Morrisburg, Ontario

Ms. Penelope Rowe
St. John's, Newfoundland

Mr. Tim Sale
Winnipeg, Manitoba

Mr. Richard Splane
Vancouver, British Columbia

Mr. Thomas Daniel Tramble
Monastery, Nova Scotia

* *

National Council of Welfare
Brooke Claxton Building
Ottawa K1A 0K9

Director: Ken Battle

NATIONAL COUNCIL OF WELFARE

The National Council of Welfare was established by the Government Organization Act, 1969 as a citizens' advisory body to the Minister of National Health and Welfare. Its mandate is to advise the Minister on matters pertaining to welfare.

The Council consists of 21 members, drawn from across Canada and appointed by the Governor-in-Council. All are private citizens and serve in their personal capacities rather than as representatives of organizations or agencies. The membership of the Council includes past and present welfare recipients, public housing tenants and other low-income citizens, as well as lawyers, professors, social workers and others involved in voluntary service associations, private welfare agencies, and social work education.

Reports by the National Council of Welfare have dealt with income security, taxation, the working poor, children in poverty, single-parent families, social employment, social services, community organization, nutrition, legal aid/legal services, low-income consumers, poor people's groups and poverty coverage in the press.

On peut se procurer des exemplaires en français de toutes les publications du Conseil national du bien-être social, en s'adressant au Conseil national du bien-être social, Immeuble Brooke Claxton,
OTTAWA K1A 0K9